SENSITIVITY ANALYSIS PERFORMED for AT&T

INTRODUCTION

AT&T requested that Milliman & Robertson, Inc. assist AT&T in a proceeding before the Federal Communications Commission (FCC) dealing with the rate effects of new accounting rules for non-pension retiree benefits.

The matters before the FCC deal with the implementation of the Statement of Financial Accounting Standards Number 106 (SFAS 106). SFAS 106 requires that companies use accrual accounting to report the costs of non-pension employee benefits for current and future retirees.

The Local Exchange Carriers (LECs), from whom AT&T purchases interstate access services, have requested that the FCC allow their rates to be increased. The LECs want the FCC to consider the implementation of SFAS 106 to be an "exogenous" cost under their regulated rate structure. In their arguments before the FCC, the LECs included valuations of SFAS 106 liabilities and expenses and other information of an actuarial nature.

In order to examine the sensitivity of these actuarial items to changes in assumptions, we developed an actuarial model. This report does not present the results of a formal SFAS 106 valuation. Also, it does not attempt to verify any of the SFAS 106 liabilities or expenses reported by any of the LECs. Rather, it identifies certain actuarial issues and the impact they can have on SFAS 106 valuations.

CONSTRUCTION OF THE ACTUARIAL MODEL

The purpose of the actuarial model was to allow us to perform sensitivity testing of the various assumptions and other input used by the LECs in their SFAS 106 valuations. The model shows how the SFAS 106 expenses and liabilities change with changes in assumptions.

Because of the lack of detail in most of the LECs direct cases, as well as the short interval between the June 1, 1992 LEC filing date and the July 1, 1992 response date, we chose to focus on one of the LECs for the purposes at hand. The LEC we chose had superior details in its direct case compared to the direct cases of the other LECs. We created an actuarial model that reproduces the SFAS 106 results of that LEC, and we have used that model to demonstrate how SFAS 106 results vary with the assumptions used.

We used information provided in the direct case of Pacific Bell and Nevada Bell (hereinafter called "Pacific") to

create a model. We had to supplement that report's information with additional consistent assumptions because the report did not provide a complete set of actuarial factors. The combination of the report's information and our own assumptions did produce SFAS 106 results that agreed well with the results reported in the Pacific Bell direct case.

Once we had established that our model approximately reproduced Pacific's reported SFAS 106 results, we used the model to show the variability of accounting costs and liabilities under SFAS 106.

The model basically performs a year-by-year projection of the expected health care costs for the Pacific Bell population of currently active and retired employees and their dependents.

The model considers the following sorts of processes and factors:

1. Discount rates and health care costs and trends,
2. The age, sex, past service, and active/retired status of employees,
3. The marital status of employees and the age, sex, and coverage of the spouse or surviving spouse,
4. Termination rates prior to retirement for active employees,
5. Mortality for active and retired employees, and
6. Retirement rates by age.

In some cases, the input that corresponds to certain of these factors was taken from Pacific's direct case. In other cases, the input was absent or stated in such a way that we could not be certain what was done. In these latter cases we supplied assumptions which were reasonable and consistent with the data which were stated. This is described more fully below.

In the following table, we compare the 1993 SFAS 106 costs and liabilities, as stated in the Pacific direct case, with those which are generated from the model developed by Milliman & Robertson, Inc. (M&R):

	Pacific	M&R
Accumulated Post-Retirement Benefit Obligation		
Active	$ 840,122	$ 913,491
Inactive	1,737,489	1,697,068
TOTAL	$2,577,611	$2,610,559
Service Cost, 1/1/93	$41,206	$45,614
Interest Cost	211,689	216,619
Amortization (15 year)	157,770	159,967
Expense	$399,226	$413,417

Because the numbers produced by the M&R model closely approximate those in Pacific's direct case, we believe that the model reasonably represents the sensitivity of costs and liabilities to changes in assumptions.

DATA and RELIANCE

There are several limitations in the model that we would like to note. These limitations do not, in our view, significantly weaken the value of analyses using the model. These limits fall into three categories:

- Assumptions that we supplied (because certain data were missing from the Pacific direct case) may be different than those appropriate to Pacific.
- Interpretations and simplifications of the LEC's stated assumptions may result in some compromise of accuracy.
- Computational methods may have been different.

We believe that the first of these categories is the most significant.

As one example of missing data, we had to create an age and sex distribution of Pacific's retiree population because the report did not contain these data. We did this by spreading the reported numbers of retirees by using the distribution of AT&T's retirees.

Another example of how we replaced missing information is that we assumed that surviving spouses of deceased retirees were covered, which we believe is probably the case.

One example of the potential problems in interpreting the LEC's data is that we assumed that the active age/service distribution shown in Pacific's direct case for December 31, 1989 will be appropriate for 1993. Another example is that the population data were not split between management and associates, although some of the costs and decrements were. We therefore composited certain factors and used standard mortality and termination rates.

Another example of the interpretation issue is that we assumed that retirements took place only at the ages shown in the LEC report.

One simplification we made involved Pacific's dental program. We assumed that the costs of Pacific's dental benefits are offset by the cost savings expected from managed care efforts directed at the health care benefits. Therefore, we did not explicitly model the dental benefits.

Computational questions include the assumed date within a year when payments and decrements take place. The Pacific report gave us little guidance in this issue.

We did not perform any audit of the data in the Pacific report. We used the data presented in that report when it seemed reasonable and appropriate.

BASE ASSUMPTIONS

This section describes the assumptions we used in the model. For comparison, the Appendix to this report contains copies of relevant pages of Pacific's direct case.

Health Care Costs at Age 65 for 1993
(Derived from Pacific's direct case)

Non-Medicare Eligibles	$3,780
Medicare Eligibles	$950

These costs were based on the 1989 claims per capita shown in Pacific's direct case. We averaged the costs for various categories and trended them to 1993.

Health Care Costs at Ages Other than Age 65
(M&R assumption applied to age 65 costs)

We assumed that per capita claim costs would increase at 3% per year of age until age 70. From age 71 to age 80, per capita claim costs would increase at 2% per year of age. Starting with age 71, per capita claim costs would increase at 1% per year of age.

These factors are intended to approximate the age-related changes in the utilization and intensity of services. The health care cost trend, described below, accounts for year-to-year inflationary and utilization changes.

Health care Cost Trend
(Derived from Pacific's direct case)

(Combined Salaried and Non-salaried)

Years	Trend
1993	12.50%
1994	11.88%
1995	9.63%
1996	8.50%
1997	7.88%
1998	7.25%
1999	6.94%
2000	6.63%
2001	6.31%
2002+	6.00%

The Pacific direct case shows distinct trend assumptions for services rendered by a preferred provider network and those services rendered by out-of-network providers. We used a 75%/25% weighting of the In-Network/Out-of-Network trends shown in Pacific's direct case. The 75%/25% weighting was taken from the Pacific direct case.

Probabilities of Retirement
(Derived from Pacific's direct case)

(Combined Salaried and Non-salaried)

Age	Probability
50	2.86%
55	6.09%
60	11.13%
62	29.80%
64	37.00%
69	30.00%
70	100.00%

The Pacific direct case showed separate probabilities of retirement for salaried and non-salaried employees. We composited the salaried/non-salaried probabilities shown in the Pacific direct case using a 25%/75% weighting to approximate an average retirement probability. We assumed that about 25% of the employees retiring at each age are salaried.

Eligibility for Retirement with Health care Benefits
(Derived from Pacific's direct case)

Because the Pacific direct case showed a probability of retirement at age 50, we assumed that age 50 is the earliest age at which employees can retire and receive retiree health care benefits. We also assumed that there are no past-service requirements for eligibility. There is a relatively small population over age 50 with less than 6 years of service, so there will not be a major effect on costs if there is a reasonable past service requirement.

Marital Status and Sex
(Derived from Pacific's direct case and M&R assumptions)

Savings due to Coordination of Benefits for spouse's coverage: 10%.

No child dependants covered.

Surviving spouses covered.

50% of active employees are male.

There was no information on any of the above factors in the Pacific direct case. We believe that the assumptions we made are reasonable.

The following assumptions were taken from the Pacific direct case:

80% male are married, 40% female are married.

Assumed male spouse 2 years older than employee and female spouse 3 years younger.

Mortality
(M&R assumption)

The Pacific direct case did not show mortality rates for all ages. Therefore, we used a standard mortality table, the GAM 1983 (male and female) in our model. The standard table had mortality rates similar to that shown in the Pacific report.

Terminations and Disability Rates
(M&R assumption)

The Pacific direct case shows termination rates for certain ages and years of past service and distinguishes between salaried and non-salaried employees. Our model used simplified, standard termination rates which were intended to approximate Pacific's termination rates, and we assumed that there would be no early disability retirements.

Discount Rate
(Taken from Pacific's direct case)

We used the 8.50% discount rate shown in the Pacific direct case.

Assets
(Taken from Pacific's direct case)

We used the asset figure of $211,055,000 as of 12/31/92 as shown in the Pacific direct case.

Amortization of Transition Obligation
(Taken from Pacific's' direct case)

The past service liability was amortized over 15 years, which is the assumption used in the Pacific direct case.

Distribution of Active Participants
(Derived from Pacific's direct case)

The following table shows the age/past service assignments we used in the model. This is very similar to the corresponding table shown in the Pacific direct case.

YEARS OF SERVICE

AGE	1	6	7	11	12	17	22	27	30	ALL YEARS
19	47									47
21	775	17								792
26	1,095	-	1,698	472						3,265
32	884	-	3,668	-	4,795	366				9,713
37	719	-	2,518	-	4,422	5,412	805			13,876
42	534	-	1,265	-	2,453	5,414	5,850	346		15,862
47	219	-	551	-	1,002	1,783	3,549	2,598	77	9,779
52	93	-	245	-	524	848	1,285	1,307	1,239	5,541
57	40	-	103	-	274	506	524	402	1,341	3,190
62	15	-	52	-	142	261	225	91	426	1,212
65	1	-	29	-	31	56	37	19	42	215
TOTALS	4,422	17	10,129	472	13,643	14,646	12,275	4,763	3,125	63,492

Distribution of Inactive Participants
(M&R assumption)

Age	Male	Female
37	68	53
42	28	62
47	667	374
52	2,414	1,070
57	4,492	1,893
62	5,025	2,555
67	3,760	2,506
72	2,568	1,765
77	1,145	969
82	801	544
87	402	234
92	75	38

This distribution was based on the distribution of inactive AT&T employees. There was no corresponding information in the Pacific direct case. In the absence of other information, we believe this distribution probably fairly represents the distribution of Pacific's retirees, because of Pacific's former close ties to AT&T.

Results of Sensitivity Tests

We used the model described above to show how changes in assumptions could change the accrual costs.

The assumptions we evaluated are health care cost trend and discount rate. To demonstrate the sensitivity of costs to the discount assumption, we show how the costs vary if the discount is changed.

To demonstrate the sensitivity of costs to the health care cost trend assumption, we show how costs would change if the trends are reduced by a flat amount from those assumed by Pacific. We also show how using the highest and lowest trends assumed by any of the LECs would change the costs. We show how costs change if the cost of currently active employees is capped.

Finally, we show how the set of assumptions suggested by AT&T in its pleading would reduce costs compared to the assumptions used by Pacific in its direct case.

All of the numbers shown below are based on the M&R model. We would like to stress that the results of different sensitivity tests are not necessarily additive.

Effects of Reducing the Health Care Cost Trend

The following table shows the effects on cost of reducing Pacific's health care cost trend by various percentage points. The reductions in accrual cost shown below are for the 8.5% discount assumption used by Pacific.

	Rates Assumed by Pacific Minus:				
	0%	1%	2%	4%	5%
Change in Accrual Cost	0.0%	(15.3%)	(27.5%)	(45.0%)	(51.5%)

The trend rate reductions shown above were applied in every year. There was no minimum trend rate such as CPI. Also, we assumed that there were no caps on benefit levels. Had caps been in place, or had a minimum trend been used, the lowered trend assumptions would have had a much smaller effect on the SFAS 106 accrual.

The cases using the 4 and 5 percentage point trend reductions were made to assist AT&T in its analysis of the double counting issue. We are not suggesting that the 4 or 5 percentage point trend reductions, without a corresponding reasonable discount and ultimate trend rate, be used for financial statement purposes; these figures are shown here for purposes of calculating exogenous cost effects associated with the price cap methodology.

Effects of Changed Discount Rates

The following section shows the effects on cost of changing the discount rates. The trend assumptions are based on those in the Pacific direct case.

	Discount Assumed by Pacific	Alternative Discount Rates	
	8.5%	7.5%	9.0%
Change	0.0%	12.7%	(5.3%)

Effects of Other LEC Health Care Cost Trend Assumptions

The following section shows the effects on the costs produced by our model of Pacific's SFAS 106 accrual at three different discount rates if the Ameritech and NYNEX (non-capped) health care cost trend assumptions are used and no other changes are made to the assumptions or demographics underlying the Pacific model.

	Trend Rates Assumed by Pacific	Ameritech	NYNEX
Change at 8.5% discount	0.0%	(21.2%)	61.2%
Change at 7.5% discount	12.7%	(13.4%)	85.4%
Change at 9.0% discount	(5.3%)	(24.5%)	51.0%

Of all the LECs' direct cases on this issue, Ameritech seemed to state the lowest health care cost trend, while NYNEX seemed to state the highest health care cost trend. NYNEX, in its direct case, presented trend assumptions for only a current year and a horizon year, but did not explain how the trends would grade between those years. We therefore made reasonable assumptions for how the trend would grade.

Effects of Capped Benefits

The following section shows the effects on cost of capping the retiree benefits for employees active as of January 1, 1993. The cap would be set at the 1993 cost levels of employees who are retired by January 1, 1993. The cost changes are relative to the 8.5% discount assumption as used by Pacific. The changes are shown for three different discount rates.

	Uncapped Benefits	Capped Benefits
Change at 8.5% discount	0.0%	(35.9%)
Change at 7.5% discount	12.7%	(32.2%)
Change at 9.0% discount	(5.3%)	(37.5%)

Effect of AT&T's Suggested Assumptions

In its pleading, AT&T suggested that the following assumptions be used for the purpose of determining the exogenous costs of SFAS 106 relating to the price cap formula:

- The per capita costs of retiree benefits provided to employees who are active as of January 1, 1993 will be capped at the 1993 cost levels of employees who are retired by January 1, 1993.
- The per capita costs of retiree benefits provided to employees who are retired as of January 1, 1993 will increase at the health care cost trends specified by Ameritech (in its direct case) less 4 percentage points.
- The discount rate and rate of return on plan assets will each be 9.0%.

Under the above assumptions, the costs produced by our model of Pacific's SFAS 106 accrual would be 58.7% lower than if the base assumptions were used.

CONCLUSION

We created a model that approximates the SFAS 106 valuation shown in the Pacific direct case. A number of approximations were made in the model, mostly due to the lack of detail in the Pacific direct case. Nevertheless, we believe that the model reasonably represents how changes in key assumptions can change the costs produced by SFAS 106 calculations.

APPENDIX to
Sensitivity Analysis Performed for AT&T

Selected Pages from the
Pacific Bell and Nevada Bell
Direct Case Showing SFAS 106
Data and Assumptions

ACTUARIAL REPORT

PACIFIC TELESIS GROUP POST-RETIREMENT BENEFITS
OTHER THAN PENSIONS - MEDICAL/DENTAL/GROUP TERM LIFE INSURANCE
ACTUARIAL VALUATION PROJECTED TO 1993

ACTUARIAL PROJECTION

FOR THE PACIFIC TELESIS GROUP
POST-RETIREMENT MEDICAL, DENTAL AND GROUP TERM LIFE INSURANCE PLANS

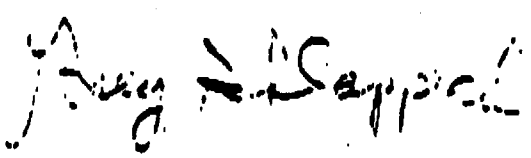
1993

This report covers both the funding and accounting requirements for the 1993 plan year.

The amounts presented in this report have been prepared in accordance with generally accepted actuarial principles and practices and reflect the law, regulations issued to date, and the requirements of Financial Accounting Standards No. 106 (FAS106).

Calculations are based on personnel and asset information supplied by the Corporation and the actuarial methods and assumptions described in this report. Further, the effects of the management in-force reduction and no Bargained VEBA contributions for years 1991 and 1992 are reflected in this report. The FAS106 Transition Obligation is amortized over 15 years, the average remaining service period for active participants. Allocation factors of 96% and 2% are used to determine the proportion of VEBA Contribution and FAS106 Expense for Pacific Bell and Nevada Bell, respectively. These actuarial allocations are necessary since VEBA assets are not maintained separately by Company. Derivation of these factors are summarized in the Appendix.

Users of this report should recognize that the report was developed to produce the required disclosures under FAS106 and to determine tax deductions under the Internal Revenue Code. Accordingly, appropriate adjustments may be needed if this information is used for any other purpose.



G. S. Schlappich
Associate, Society of Actuaries

May, 1992

SECTION ONE - MANAGEMENT SUMMARY

A. 1993 Costs (All Dollar Amounts in Thousands)

Funding:

VEBA Contribution (12/31):

		All PTG	Pacific Bell	Nevada Bell	Other Subsidiaries
Medical/Dental Bargained	-	$184,651	$177,265	$3,693	$3,693
Medical/Dental Non-Bargained	-	107,632	103,327	2,153	2,152
Group Life	-	3,341	3,207	67	67
Total	-	295,624	283,799	5,913	5,912

FAS106 Expense:

Medical/Dental	-	398,226	383,257	7,985	7,984
Group Life	-	3,279	3,148	66	65
Total	-	402,805	386,405	8,051	8,049

These results are based on 12/31/89 data, projected to 1993.

B. Funding Background

1. Legal Requirements

Cash contributions to the VEBAs must meet the legal funding requirements described in Section 419 of the Internal Revenue Code.

To meet these requirements, they must be based on:

- An actuarial cost method which spreads costs between years in an acceptable manner, and
- Actuarial assumptions that are each reasonable "taking into account experience under the Plan and reasonable expectations".

2. Actuarial Methods and Assumptions

The Individual Level Premium Actuarial Cost Method is used to calculate the medical/dental VEBA contributions. The Aggregate Actuarial Cost Method is used to calculate the Group Life VEBA Contribution. These methods are acceptable for funding purposes and spread the present value of benefits over the working lives of covered employees. Bargained VEBA contributions reflect no prefunding for years 1991 and 1992.

3. Summary of Data

Actual data* relating to the Holding Company, Washington, Pacific Bell, Nevada Bell and Directory are shown below:

	12/31/89
a. Employee Demographics	
Number	63,492
Average Age	41.0
Average Service	15.5
b. Inactive Demographics	
Number of Retirees	33,508

* These data exclude 2,272 employees and 719 retirees who waived medical coverage.

c. Number of Active Employees by Age and Completed Years of Service
As of December 31, 1989

Age Group	YEARS OF SERVICE							
	0-4	5-9	10-14	15-19	20-24	25-29	30+	Total
Under 20	47	0	0	0	0	0	0	47
20-24	775	17	0	0	0	0	0	792
25-29	1,095	1,698	472	0	0	0	0	3,265
30-34	884	3,668	4,795	366	0	0	0	9,713
35-39	719	2,518	4,422	5,412	805	0	0	13,876
40-44	534	1,265	2,453	5,414	5,850	346	0	15,862
45-49	219	551	1,002	1,783	3,549	2,598	77	9,779
50-54	93	245	524	848	1,288	1,307	1,239	5,541
55-59	40	103	274	506	524	402	1,341	3,190
60-64	15	52	142	261	225	91	426	1,212
65+	1	29	31	56	37	19	42	215
Total	4,422	10,146	14,115	14,646	12,275	4,763	3,125	63,492

4. Participant data as of 12/31/89 for Pacific Bell, Nevada Bell and Other Subsidiaries are shown separately below:

	Pacific Bell	Nevada Bell	Other Subsidiaries	All PTG
a. Employee Demographics				
Number	58,228	891	4,373	63,492
Average Age	41.4	42.6	38.4	41.0
Average Service	16.1	17.3	7.2	15.5
b. Inactive Demographics				
Number of Retirees	32,570	312	626	33,508

C. Actuarial Method and Assumptions

1. Actuarial Cost Method - Individual Level Premium

Contributions for the Bargained and Non-Bargained VEBAs are determined actuarially on a level basis by spreading the present value of future expected medical/dental benefits of the participants and their dependents over the working lives of covered employees. No prefunding for years 1991 and 1992 is reflected in the Bargained VEBA contributions.

The primary purpose of the advance funding techniques utilized by the Individual Level Premium Actuarial Cost Method is to allocate the cost of plan benefits on a rational and systematic basis equitably among generations of rate payers.

2. Assumptions

a. Actuarial Value of Liabilities

To determine the VEBA contributions, it is necessary to estimate the PBOP benefits that will be paid in future years to current employees, retirees, and their dependents. All of these items are then discounted to estimate their present values. For these calculations, experience is analyzed and actuarial assumptions are developed such as mortality rates for active and retired employees and annuitants, medical inflation scales, separation rates, disability retirement rates, service retirement rates, and qualified dependent ratios.

b. Actuarial Assumptions

1. Medical Bargained VEBA

Actuarial assumptions are shown below. All ages are determined on an age nearest birthday basis. Service is to completed years. Probabilities and rates shown are for selected ages and services and are based on Pacific Telesis post-divestiture experience.

Interest (Discount) Rate: 8.5%

Medical Cost Inflation:

Year(s)	In-network	Out-of-network
1990-1993	12.00%	14.00%
1994	11.50%	13.00%
1995	8.50%	13.00%
1996	8.00%	10.00%
1997	7.50%	9.00%
1998	7.00%	8.00%
1999	6.75%	7.50%
2000	6.50%	7.00%
2001	6.25%	6.50%
2002+	6.00%	6.00%

Average Annual Net Indemnity Claim Per Capita for 1989:

Health Care Network

Health Care Network is a new plan. Costs are projected to be 10% to 15% lower than those under MEP due to plan changes and contracting arrangements including:

- tighter utilization controls
- discounts on provider charges
- greater control of prescriptions

MEP

	Retirees Prior to 1/1/87		Spouses of Retirees Prior to 1/1/87	
Age	Male	Female	Male	Female
50	$967	$2,300	$744	$1,877
55	1,621	2,027	1,035	2,013
60	2,434	2,291	1,386	2,186
64	3,201	2,917	1,864	2,352
65	678	620	392	415
75	699	702	637	456

Medicare Part B and HMO premiums are valued separately.

Administrative Expenses: Loading of 6% of claim payments.

Probabilities of Separation from Service Prior to Eligibility for Service or Disability Retirement for Reasons Other than Death:

Salaried

Service	Age at Hire		
	20	30	40
0	13.0%	13.0%	13.0%
1	9.0%	9.0%	9.0%
2	5.0%	5.0%	5.0%
3	4.0%	4.0%	4.0%
4	4.0%	4.0%	4.0%
5	2.9%	1.2%	0.6%
10	1.8%	1.0%	0.4%
15	1.2%	0.6%	0.4%
20	1.0%	0.4%	0.6%

Non-Salaried

Service	Age at Hire		
	20	30	40
0	17.0%	17.0%	17.0%
1	13.0%	13.0%	13.0%
2	9.0%	9.0%	9.0%
3	7.0%	7.0%	7.0%
4	5.0%	5.0%	5.0%
5	3.8%	1.9%	1.1%
10	2.8%	1.4%	1.0%
15	1.9%	1.1%	1.2%
20	1.4%	1.0%	1.7%

Probabilities of Service Retirement:

Salaried

Age	
50	1.70%
55	5.41%
60	14.33%
62	30.58%
64	39.35%
69	30.00%

Select rates of service retirement also exist including those which reflect the effects of the 1991 management in-force reduction.

Non-Salaried

Age	
50	3.25%
55	6.32%
60	10.06%
62	29.54%
64	36.21%
69	30.00%

Rates of Disablement:

Age	Males	Females
30	0.08%	0.17%
35	0.08%	0.20%
40	0.09%	0.27%
45	0.20%	0.40%
50	0.40%	0.65%
55	0.90%	0.95%
60	2.17%	1.35%

Rates of Mortality for Active Employees:

Age	Males	Females
35	0.17%	0.08%
45	0.26%	0.12%
55	0.58%	0.27%
65	1.48%	0.65%

Rates of Mortality for Non-Disabled Pensioners and Spouses:

Age	Males	Females
45	0.70%	0.40%
55	0.90%	0.50%
65	1.60%	1.00%
75	4.40%	3.10%
85	11.80%	8.00%

Rates of Mortality for Disabled Pensioners:

Age	Males	Females
45	3.82%	2.49%
55	3.57%	2.39%
65	2.50%	1.40%
75	5.30%	3.30%
85	13.00%	8.80%

Surviving Spouse Age:	Male Employees: Spouse 3 years younger than employee Female Employees: Spouse 2 years older than employee
Percentage of Participants Assumed to be Married:	Males: 80% Females: 40%
Assumed Plan Participation for Future Retired Employees:	Indemnity Coverage Type In-Network 75% Out-of-Network 25% HMO All future retirees currently in HMO are assumed to continue with an HMO.

ii. Medical Non-Bargained VEBA

All assumptions are the same as those used for funding the Medical Bargained VEBA (subsection C.2.b.i.) except those outlined below:

Interest (Discount) Rate:	5% (after tax)
Future Medical Cost Inflation:	None

iii. Dental Bargained VEBA

All assumptions are the same as those used for funding the Medical Bargained VEBA (subsection C.2.b.i.) except those outlined below:

Dental Cost Inflation:	4%
Average Annual Net Indemnity Claim Per Capita in 1989:	Current Retiree $295
Percentage of Participants Assumed to be Married:	Not applicable, as composite claim rates are used.

1. Components of Net Periodic PBOP Expense for 1993
(All Dollar Amounts in Thousands)

Net periodic PBOP (medical and dental) expense for 1993 is show below.

a.	Service Cost (including administrative expenses)	$41,206
b.	Interest Cost	211,689
c.	Expected Return on Assets	11,439
d.	Net Amortization (15 years)	157,770
e.	Net Periodic PBOP Expense for all PTG: (a)+(b)-(c)+(d)	399,226
f.	Allocation factor for Pacific Bell	.96
g.	Net Periodic PBOP Expense for Pacific Bell: (e)x(f)	383,257
h.	Allocation factor for Nevada Bell	.02
i.	Net periodic PBOP Expense for Nevada Bell: (e)x(h)	7,985
j.	Net Periodic PBOP Expense for Other Subsidiaries: (e)-(g)-(i)	$7,984

2. Calculation of the Transition Obligation at 12/31/92 for all PTG
(All Dollar Amounts in Thousands)

a.	Accumulated Post-retirement Benefit Obligation		
	Active	$ 840,122	
	Inactive	1,737,489	
		$2,577,611	
b.	Plan Assets at Fair Value		$ 211,055
c.	Accumulated Post-retirement Benefit Obligation in Excess of Plan Assets: (2a)-(2b)		2,366,556
d.	Unrecognized Net Gain/Loss		0
e.	Unrecognized Past Service Cost:		0
f.	Unrecognized Transition Obligation		2,366,556
g.	Accrued Post-retirement Benefit Cost: (2c)-(2d)-(2e)-(2f)		$ 0

C. FAS106 Actuarial Method and Assumptions

1. Actuarial Cost Method

The Projected Unit Credit Actuarial Cost Method as prescribed under FAS106 has been used to determine PBOP expense. Under this method:

i) the Service Cost is the portion of the actuarial present value of anticipated future PBOP benefits, based on future inflation levels, assigned by formula to the current year, and

ii) the Accumulated Post-retirement Benefit Obligation is the actuarial present value of anticipated future PBOP benefits earned to date, based on future inflation levels.

Both of these items take into account the Corporation's expectations for future PBOP benefit increases.

2. Assumptions

All assumptions are the same as those used for funding the Medical and Dental Bargained VEBAs (subsections C.2.b.i. and C.2.b.iii., respectively). An additional assumption is shown below.

Expected Long-Te n Rate of Return on Plan Assets:	8.50%

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's own motion into the matter of post-retirement benefits other than pensions.	I.90-07-037 (Filed July 18, 1990)
Application of Pacific Gas and Electric Company for authority among other things, to increase its rates and charges for electric and gas service. (Electric and Gas) (U-39-M)	Application 88-12-005 (Filed December 5, 1988)
And Related Matter.	I.89-03-033 (Filed March 20, 1989)

TESTIMONY OF JOHN M. BEITO

ON BEHALF OF PACIFIC BELL (U 1001 C)

IN RESPONSE TO

ORDERING PARAGRAPHS 5 AND 6 OF I.90-07-037

August 30, 1991